



# STATE OF NORTH CAROLINA

**DEPARTMENT OF ADMINISTRATION**

**NORTH CAROLINA COMMISSION OF INDIAN AFFAIRS**

**STATEWIDE FEDERAL COMPLIANCE AUDIT PROCEDURES**

**FOR THE YEAR ENDED JUNE 30, 2008**

**OFFICE OF THE STATE AUDITOR**

**BETH A. WOOD, CPA**

**STATE AUDITOR**

**DEPARTMENT OF ADMINISTRATION**

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State Auditor

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**AUDITOR'S TRANSMITTAL**

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The Honorable Beverly E. Perdue, Governor  
Members of the North Carolina General Assembly  
The North Carolina Commission of Indian Affairs  
Britt Cobb, Secretary  
Department of Administration

We have completed certain audit procedures at the Department of Administration and the North Carolina Commission of Indian Affairs related to the State of North Carolina reporting entity as presented in the *Single Audit Report* for the year ended June 30, 2008. Our audit was performed by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes*.

In the *Single Audit Report*, the State Auditor presents the results of tests of internal control and compliance with laws, regulations, contracts, and grants applicable to the State's major federal programs. Our audit procedures were conducted in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, issued by the Comptroller General of the United States and the Single Audit Act.

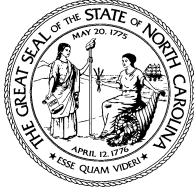
Our audit objective was to render an opinion on the State of North Carolina's administration of major federal programs and not the Department's administration of major federal programs. However, the report included herein is in relation to our audit scope at the Department and not to the State of North Carolina as a whole.

The audit findings referenced in the report are also evaluated to determine their impact on the State's internal control and the State's compliance with rules, regulations, contracts, and grants. If determined necessary in accordance with *Government Auditing Standards* or the Single Audit Act, these findings are reported in the State's *Single Audit Report*.

*North Carolina General Statutes* require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA  
State Auditor



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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH  
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133**

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The North Carolina Commission of Indian Affairs  
and Management of the Department of Administration

Compliance

As part of our audit of the State of North Carolina's compliance with the types of requirements described in the *OMB Circular A-133 Compliance Supplement* that are applicable to each of its major programs for the year ended June 30, 2008, we have performed audit procedures at the Department of Administration and the North Carolina Commission of Indian Affairs. Our report on the State of North Carolina's compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133 is included in the State's *Single Audit Report*. Our federal compliance audit scope at the Department of Administration and the North Carolina Commission of Indian Affairs included the Section 8 Housing Choice Voucher Program (CFDA #14.871).

The audit results described below are in relation to our audit scope at the Department and not to the State of North Carolina as a whole.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of compliance with those requirements.

The results of our audit procedures at the Department disclosed instances of noncompliance that are required to be reported in accordance with OMB Circular A-133 and which are described in findings 1 and 2 in the Audit Findings and Responses section of this report.

Internal Control Over Compliance

Management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH  
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133 (CONCLUDED)**

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federal programs. In planning and performing our audit, we considered internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in findings 1 through 4 in the Audit Findings and Responses section of this report to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider any of the deficiencies described in the Audit Findings and Responses section of this report to be material weaknesses in relation to our audit scope at the Department.

Management's responses to the findings identified in our audit are included in the Audit Findings and Responses section of this report. We did not audit the responses, and accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the North Carolina Commission of Indian Affairs, the Secretary of the Department of Administration, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Beth A. Wood, CPA  
State Auditor

February 12, 2009

## **AUDIT FINDINGS AND RESPONSES**

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### **Matters Related to Financial Reporting or Federal Compliance Objectives**

#### **1. LOST INTEREST EARNINGS ON PROGRAM RESERVE FUNDS**

The Department of Administration has not established an interest-bearing bank account with the Department of State Treasurer so that interest is credited to the Section 8 Housing Choice Voucher Program (Program). Accordingly, we estimate that the Program was not credited with approximately \$41,800 of interest that would have been earned for the fiscal year ending June 30, 2008.

In accordance with Title 24, Code of Federal Regulations Section 982.155, the Department must maintain an administrative fee reserve for the program that includes any excess funds received from the federal awarding agency plus the interest income earned on the balance in the reserve. Funds in the administrative fee reserve must be used for program administrative expenses or other housing purposes, as permitted by state law.

*Federal Award Information:* Our audit included contract NC901VO and funding increments for federal fiscal years ending September 30, 2006 - September 30, 2008.

*Recommendation:* The Department should establish the appropriate bank account for the Program to ensure the investment income earned is properly credited and used in accordance with federal requirements.

*Response:* An interest bearing account has been established and funds have been transferred to this new account.

#### **2. LACK OF DOCUMENTATION TO SUPPORT ANNUAL REVIEW OF UTILITY ALLOWANCE SCHEDULE**

The North Carolina Commission of Indian Affairs did not maintain documentation to support the annual preparation of or adjustments to the Section 8 Housing Choice Voucher Program's utility allowance schedule. As a result, the Commission's ability to ensure that an accurate and up-to-date utility allowance schedule is in place is limited, and the ability of the Commission to ensure benefits paid to participants in the Program are in compliance with program requirements is compromised.

Per Title 24, Code of Federal Regulations section 982.517(c)(1), the Commission must review the utility allowance schedule annually and maintain information supporting its review and any revisions in the schedule.

*Federal Award Information:* Our audit included contract NC901VO and funding increments for federal fiscal years ending September 30, 2007, and September 30, 2008.

## AUDIT FINDINGS AND RESPONSES (CONTINUED)

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*Recommendation:* The Commission should implement procedures to ensure the utility rate data are reviewed annually in accordance with the federal requirements and such review is documented. In addition, written policies and procedures should be developed for the process and should allow for proper supervision to ensure adequate supporting documentation is obtained and retained to support the annual review, preparation, and revision of the schedule.

*Response:* The Commission will implement the following procedure to ensure that the Utility Allowances are reviewed annually. Between September and December of each calendar year, the Director of the Section 8 Program will review the existing utility allowance schedule(s) for each county, in collaboration with the Housing Inspectors and make a recommendation to the Executive Director of the Commission as to whether the Utility Allowances will need to be revised.

The Commission will determine internally if the allowances will need to be revised annually. If it becomes necessary to revise the Utility Allowances, the Commission will seek an outside consultant to conduct a Utility Allowance survey, collect data from local utility providers, and provide the Commission with a recommendation as to whether the utility allowances should be increased.

### 3. INADEQUATE REVIEW PROCEDURES AND INTERNAL CONTROL MONITORING

The Department of Administration, including the Commission of Indian Affairs and the Office of Fiscal Management, did not provide sufficient oversight and review of critical functions required for proper administration of the Section 8 Housing Choice Voucher Program. The deficiencies noted increase the risk of noncompliance with federal laws, regulations, and program compliance requirements.

During our audit of the Program, we noted the following deficiencies:

- The *Family Report* (HUD-50058), which was prepared by the Commission, was not reviewed by someone independent of the preparer. There were no formal procedures in place to provide guidance about preparing and submitting the report or to ensure adequate documentation was retained to support the report. For the July 2007 – June 2008 fiscal year, supporting documentation was not retained for 11 out of the 178 reports that were submitted to the federal funding agency.
- Field inspectors have sole responsibility for taking applications, evaluating required documentation, and determining eligibility of participants for the Program. The field inspectors' determinations were not subject to quality reviews by management for adherence to and consistent application of eligibility criteria.
- The Commission is responsible for preparing monthly listings of Program benefits to be paid to active participants and submitting the list to Fiscal Management so monthly benefit payments can be processed. This listing was not subject to an

## AUDIT FINDINGS AND RESPONSES (CONTINUED)

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independent review at the Commission to determine the accuracy and validity of the payments being requested.

- The quarterly financial report *Voucher for Payment of Annual Contributions and Operating Statement* (HUD-52681-B), which is prepared by Fiscal Management, was not reviewed to ensure it was completed accurately and timely. In addition, no formal procedures exist to establish responsibility and provide guidance about the preparation and submission of the report.

Various federal rules, including the A-133 Compliance Supplement and A-102 Common Rule require entities receiving federal awards to establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. These rules state that internal controls should include the implementation of monitoring controls, which assess the quality of internal control performance over time. These include ongoing monitoring through independent reconciliations, supervisory review, and management review of reports.

*Federal Award Information:* Our audit included contract NC901VO and funding increments for federal fiscal years ending September 30, 2007, and September 30, 2008.

*Recommendation:* Management should take appropriate action to establish an internal control structure that includes adequate review procedures and ongoing monitoring to assess the quality and performance of internal controls over the Section 8 Housing Choice Voucher Program. Consideration should be given to developing clearly written policies and procedures to communicate expectations and provide guidance to the staff.

*Response:* The Commission will develop step-by-step internal procedures that will outline the process for preparing and submitting the required family report (HUD 50058) data to the Public and Indian Housing Information Center (PIC) system. The Director of the Section 8 Housing program, independent of the preparer, will review all of the HUD 50058 reports to verify that there are not fatal errors.

The Commission will maintain hard copies for all PIC submissions for a period of three years. The Commission will prepare the detailed procedures defining how the Family report (HUD) 50058 data will be submitted to the PIC. The Section 8 Housing Director will monitor this process monthly to assure that the reports are completed. At the end of each month, the 58 submission files will be moved and saved in an electronic file.

The Commission will create a checklist to verify field inspector's determination of eligibility for all Section 8 families, prior to admitting them to the Section 8 Program. The clerical staff will also review the checklist, initial and date it to verify that they have reviewed the information for accuracy. If a family is determined to be ineligible, the Section 8 Director will review each file to verify that the applicant is ineligible, and advise the family of their right for a formal hearing.

During the data entry portion of the re-examination process, the clerical staff will verify that the inspector's subsidy calculations are correct for all housing and utility allowance



## AUDIT FINDINGS AND RESPONSES (CONTINUED)

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payments. This process will assure that the housing and utility allowances are properly calculated.

The Director of the Section 8 Housing Program will review the listing of housing and utility payments prior to submitting them to the fiscal office for processing.

The preparer (Fiscal Officer) of the financial report attended HUD sponsored training in September, 2008. The training provided information concerning the new VMS reporting system for individuals responsible for financial reporting. Our Special Projects Accountant is now responsible for reviewing this report for accuracy and timeliness. The next cycle of the Performance Management System work plans will establish responsibility and provide guidance about the preparation and submission of the report. We are currently updating our EAGLE internal control policies. This will be included in the update.

#### 4. INAPPROPRIATE ACCESS TO THE VOUCHER MANAGEMENT SYSTEM

The Department of Administration did not properly revoke a retired employee's access to the U.S. Department of Housing and Urban Development's (HUD) web-based voucher management system. The retired employee's identification and password was used by current staff to access certain functions in the voucher management system. Improper access to this computer system could impact the integrity of the data reported to and used by HUD to determine the federal funds to be passed to the State.

To protect the integrity of information contained within the system and to ensure that only authorized individuals access certain levels of data within the system, each system user should be approved and monitored by management. Access levels granted to each employee should be carefully considered by management and assigned in accordance with job responsibilities. Upon termination, employees' access rights should be appropriately revoked in a timely manner.

*Federal Award Information:* Our audit included contract NC901VO and funding increments for the federal fiscal year ending September 30, 2008.

*Recommendation:* The Department should implement adequate controls to ensure access rights to computer systems are immediately revoked for separated employees and properly established for new hires.

*Response:* Proper controls have been initiated to immediately terminate access of separated employees and establish access to new hires promptly. We are currently updating our EAGLE internal control policies. This will be included in the update.

## AUDIT FINDINGS AND RESPONSES (CONCLUDED)

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### Matters Not Related to Federal Compliance Objectives

#### 5. DEFICIENCIES IN YEAR-END FINANCIAL REPORTING

The Department of Administration did not meet its statutory requirements for the preparation of annual financial information. The year-end financial information submitted by the Department contained numerous errors that required adjustment and correction by the Office of the State Controller. This financial information is used in the compilation of the State's *Comprehensive Annual Financial Report* and inaccurate data from the Department increases the risk of errors and misstatements in the State's report.

*North Carolina General Statute 143B-426.40H* provides that all state agencies shall prepare annual financial information in accordance with generally accepted accounting principles and in the form and time frame required by the State Controller.

*Recommendation:* The Department should improve controls to ensure financial information is reported timely and accurately to the Office of the State Controller.

*Response:* We have had discussions with the responsible staff members, and have stressed the importance of preparing the financial statements correctly and on time. We have also assigned additional staff to this effort, to review all entries thoroughly before submission. We are currently updating our EAGLE internal control policies. This will be included in the update. We do not expect a reoccurrence of these deficiencies.

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## ORDERING INFORMATION

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